

REPORT OF EXAMINATION
OF
OLD REPUBLIC HOME PROTECTION
COMPANY, INC.

AS OF
DECEMBER 31, 2004

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San Francisco, California
April 28, 2005

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

OLD REPUBLIC HOME PROTECTION COMPANY, INC.

(also referred to as the Company) at its home office located at Two Annabel Lane, #112, San Ramon, California 94583.

SCOPE OF EXAMINATION

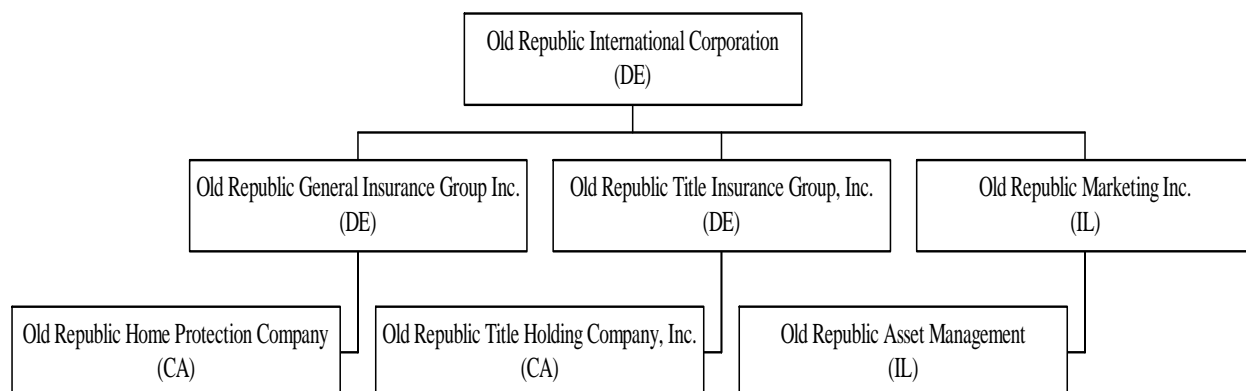
The previous examination of the Company was made as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2004. The present examination of the Company included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is wholly-owned by Old Republic General Insurance Group, Inc. (ORGIG) and is part of a larger group of companies ultimately controlled by Old Republic International Corporation (ORI).

The following is an abbreviated version of the organizational chart showing only the ultimate parent company, the parent company, and those affiliates which the Company has management arrangements with:



Members of the board of directors and principal officers serving at December 31, 2004 were as follows:

Directors

Name and Residence

Principal Business Affiliation

Harrington Bischoff
Barrington, Illinois

President
Pandora Capital Corporation

Gwen M. Gallagher
San Ramon, California

President
Old Republic Home Protection Company

Arnold L. Steiner
Birmingham, Alabama

President
Steiner Bank

Aldo C. Zucaro
Chicago, Illinois

President
Old Republic International Corporation

Directors (continued)

Name and Residence

John Popp
Columbia, South Carolina

Principal Business Affiliation

Director
Old Republic International Corporation

Principal Officers

Name

Gwen M. Gallagher
Lorna H. Mello
Michael A. Vinci
James S. Beaty

Title

President and Secretary
Vice President
Vice President
Assistant Secretary and Treasurer

Inter-Company Investment Agreement

The Company has an investment counsel services agreement with an affiliate, Old Republic Asset Management (ORAM). Under the terms of the agreement, ORAM will advise the Company regarding investment policy, assist in the purchase and sale of securities and monitor the value of invested assets. ORAM's fee is based on the market value of the managed portfolio. This agreement was submitted to the California Department of Insurance (CDI) for review in compliance with the California Insurance Code (CIC) Section 1215.5 (b)(4) and was approved by the CDI on October 18, 2002.

Federal Income Tax Allocation Arrangement

The Company files a consolidated tax return with ORI. The Company submitted the agreement to the CDI for approval in compliance with CIC Section 1215.5 (b)(4) and was approved by the CDI on September 2, 2003.

TERRITORY AND PLAN OF OPERATION

The Company writes only home protection contracts and is authorized in all states except for Alaska, Montana, New Hampshire, New York, and Virginia. The business is concentrated in 22 of the authorized states at this time.

Net contract fees written were \$100,137,303 in 2004, \$78,592,002 in 2003, \$67,089,572 in 2002, and \$55,852,329 in 2001. In 2004, the Company wrote 42 percent of its business in California, 14 percent in Arizona, and 12 percent in Texas.

Business is written through a sales force of 76 account executives and senior account executives contacting real estate professionals. The Company maintains a branch office in Laguna Hills, California.

REINSURANCE

The Company did not assume or cede any reinsurance during this examination period.

ACCOUNTS AND RECORDS

The Company has an agreement with a non-affiliated company called AMCOM to provide information systems services. This agreement was executed based on a recommendation from the prior examination.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Contract Holders from December 31, 2000
through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$67,005,536	\$	\$67,005,536	
Stocks:				
Common/Money market funds	1,465,344		1,465,344	
Cash on deposit	46,795		46,795	
Home protection contract fees receivable	2,634,328		2,634,328	
Federal income tax recoverable	2,836,466		2,836,466	
Electronic data processing equipment	38,749	38,749	0	
Interest, dividends and real estate income due and accrued	973,981		973,981	
Equipment, furniture and supplies	445,564	445,564	0	
Lease deposits	121,638	121,638	0	
Other assets	4,570		4,570	
Prepaid insurance	275,744	275,744	0	
Prepaid expenses	<u>135,347</u>	<u>135,347</u>	<u>0</u>	
Total assets	<u>\$75,984,062</u>	<u>\$1,017,042</u>	<u>\$74,967,020</u>	

Liabilities, Surplus and Other Funds

Claims adjusted and unpaid or in process of adjustment		\$ 2,826,077
Claims service expense		317,824
Other expenses		2,916,563
Taxes, licenses and fees		369,743
Federal income taxes (excluding deferred taxes)		(59,134)
Unearned home protection contract fees		<u>40,134,017</u>
Total liabilities		46,505,090
Common capital stock	\$ 160,518	
Gross paid-in and contributed surplus	5,459,900	
Unassigned funds (surplus)	<u>22,841,512</u>	
Surplus as regards contract holders		<u>28,461,930</u>
Total liabilities, surplus and other funds		<u>\$74,967,020</u>

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income

Home protection contract fees earned		\$91,513,164
Deductions:		
Claims incurred	\$41,391,045	
Claims service expenses incurred	8,242,493	
Other underwriting expenses incurred	<u>27,827,643</u>	
Total underwriting deductions		<u>77,461,181</u>
Net underwriting gain		14,051,983

Investment Income

Net investment income earned	\$ 2,876,371	
Net realized gains	<u>55,229</u>	
Net investment gain		<u>2,931,600</u>
Net income before federal income taxes		16,983,583
Federal income taxes incurred		<u>5,778,002</u>
Net income		<u>\$11,205,581</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2003		\$21,458,281
Net income	\$ 11,205,581	
Change in nonadmitted assets	(147,560)	
Dividends to stockholders (cash)	(4,000,000)	
Changes in net deferred taxes	<u>(54,372)</u>	
Change in surplus as regards contract holders for the year		<u>7,003,649</u>
Surplus as regards contract holders, December 31, 2004		<u>\$28,461,930</u>

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2000 through December 31, 2004

Surplus as regards contract holders: December 31, 2000, per Examination			\$ 7,740,697
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$25,441,930	\$	
Paid-in capital	2,000,000		
Codification changes	1,168,856		
Change in nonadmitted assets		327,081	
Changes in deferred taxes		62,472	
Dividends to stockholders (cash)	<u> </u>	<u>7,500,000</u>	
Total gains and losses in surplus	<u>\$28,610,786</u>	<u>\$7,889,553</u>	
Increase in surplus as regards contract holders			<u>20,721,233</u>
Surplus as regards contract holders, December 31, 2004, per Examination			<u>\$28,461,930</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

There are no comments for this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

There are no comments for this examination.

Previous Report of Examination

Management and Control - Inter-Company Investment Agreement (Page 3): It was recommended that the Company submit the investment services agreement with Old Republic Asset Management the California Department of Insurance (CDI) for approval in compliance with the California Insurance Code (CIC) Section 1215.5(b)(4). The Company submitted the investment agreement to the CDI and it was approved on October 18, 2002.

Management and Control – Inter-Company Management Arrangements (Page 3): It was recommended that the Company reduce its accounting service arrangement with Old Republic Title Holding Company, Inc. to writing and submit it to the CDI in compliance with the CIC Section 1215.5 (b)(4). This arrangement was submitted to the CDI and was terminated in December 2002.

Management and Control - Federal Income Tax Allocation Arrangement (Page 3): It was recommended the Company work with Old Republic International Corporation to formalize a tax allocation agreement and submit it to the CDI in compliance with the CIC Section 1215.5 (b) (4). The Company submitted the tax allocation arrangement, which was approved by the CDI on September 2, 2003.

Accounts and Records – (Page 4): It was recommended that the Company formalize its information services arrangement with AMCOM into a written agreement. The Company formalized this arrangement on December 1, 2003.

Bonds – (Page 8): It was recommended the Company amend its custodial agreement to meet the CDI standards and submit it to the CDI in compliance with the CIC Section 1104.9. The Company submitted the agreement and it was approved by the CDI on October 30, 2002.

Cash on Deposit – (Page 8): It was recommended that the Company establish a liability for uncashed checks to contract holders that it is unable to locate and contact the State Controllers' office to determine if the funds are subject to escheat. The Company did not establish a liability for uncashed checks. The Company is now in compliance with the escheat laws.

ACKNOWLEDGEMENT

The undersigned would like to thank the Company's officers and employees for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

Susan Bernard, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California